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THE COTTON SITUATION

Summary

Spot cotton prices in the United States averaged 12.12 cents in July compared with 12.50 in June and 12.90 cents in July 1936. Prices moved downward during the last half of July and the first part of August. The averages for the weeks ended August 7, 14, and 21 were 11.09, 10.55, and 10.07 cents, respectively. Major price-depressing factors were: the opinion held by the trade that the condition of the crop in the United States was much better than average and the substantiation of this opinion by the August 1 crop report, indications that cotton crops in several important foreign countries would be as large as or larger in 1937-38 than in 1936-37, and the continued downward tendency in mill activity in the United States. The average spot price at the 10 markets for the 12 months ended July was 12.70 cents compared with 11.55 in 1935-36.

In the 1936-37 season, consumption of all cotton in the United States totaled 7,944,000 bales, or 25 percent more than in 1935-36, and was the largest utilization by domestic mills on record. Consumption of American cotton amounted to 7,765,000 bales compared with 6,219,000 a year earlier and an average of 5,927,000 bales in the 10 years ended 1932-33. The 5,440,000 bales of American cotton exported this past season were 9 percent less than exports in 1935-36, and with the exception of 1934-35, were the smallest exports since 1922-23.

The August 1 report of the Crop Reporting Board indicates a probable production of 15,593,000 bales for 1937-38, the largest production since 1931-32 and 26 percent larger than last year's crop of 12,400,000 bales. The indicated production plus a world carry-over of American cotton on July 31 of approximately 6,000,000 bales gives an indicated supply of American for this season of about 21,600,000 bales compared with the 1936-37 supply of 19,400,000 bales.

With an increase of nearly 2,250,000 bales in the supply of American, with carry-over of foreign cotton on July 31 apparently somewhat larger than a year earlier, and with indications pointing to a large crop in foreign countries, it seems almost certain that the world supply of all cotton in 1937-38 will be materially larger than in 1936-37.

Mill activity and cotton consumption continued to decline in the United States during July and early August. Conditions affecting the cotton textile industries in European countries were generally more favorable in July than in June. Mills were active in July in Japan and China, but business undoubtedly has been greatly disrupted in recent weeks, especially in China, by military operations.

PRICES IN UNITED STATES LOWER BUT AVERAGE FOR 1936-37 SEASON HIGHER THAN IN 1935-36

The average 10-market price for July was 12.12 cents. The high was 12.85 on July 9 and the low 11.10 cents on July 31. The averages for the weeks ended August 7, 14, and 21 were 11.09, 10.55, and 10.07 cents, respectively. On August 19 prices fell below the 10 cent level for the first time since December 1933. The July average of 12.12 cents compares with 12.50 in June and 12.90 cents in July 1936. Among the factors which have contributed to price recessions during the past 6 or 8 weeks are: the opinion held by the trade that the condition of the crop in the United States was much better than average, indications that cotton crops in several important foreign countries probably would be as large as or larger than in 1936-37, and the continued downward tendency in mill activity in the United States. While the trade had anticipated that the statement of the Crop Reporting Board would indicate a

large crop, the figure actually released was somewhat larger than the average of trade estimates. No doubt this substantiation of trade opinion and continued favorable weather conditions were largely responsible for the fact that the 10-market price averaged approximately one-half cent lower in the week ended August 14 than in the week ended August 7.

The average spot price at the 10 markets for the 12 months ended July was 12.70 cents compared with 11.55 in 1935-36, 12.36 in 1934-35, the low of 5.89 in the 1931-32 season, and the average of 17.65 cents during the 5 years ended 1929-30. With the exception of July, the average monthly price for every month during this past season was higher than the price for the corresponding month in 1935-36.

INCREASED USE OF FOREIGN COTTON DESPITE MAINTENANCE OF PRE-DEPRESSION PRICE RELATIONSHIPS

Based on Liverpool prices for July, average prices of Indian, Brazilian, and Peruvian cottons were 83.3, 97.5, and 126.5 percent, respectively, of the price of American cotton. These percentages were substantially unchanged from a month earlier. Egyptian Uppers at 142.4 percent of American Middling were much higher relative to American than a month earlier, and were higher relative to American than in any month since August 1927. The increase in the price of Uppers, expressed as a percentage of American, has been very rapid in recent months. In October 1936 the ratio was 108.2 and as late as February 1937 it was 112.1. The sharp divergence between the prices of American Middling and Egyptian Uppers has come about as a result of a decline in the price of American and an increase in the price of Egyptian. The average percentage for the last season of 119.0 compares with 114.8 in 1935-36 and 108.8 in 1934-35, but it is considerably lower than the average for most seasons during the 1920's.

Three types of Indian expressed as a percentage of two grades of American averaged 79.8 during the 12 months ended July compared with 79.5 in the corresponding period a year earlier and 72.3 in 1934-35. The price of Brazilian Sao Paulo Fair averaged 96.6 percent of American Middling in the season just passed compared with 99.8 in 1935-36 and 97.4 in 1934-35. In the last 2 seasons the prices of Indian and Brazilian cotton relative to the prices of American have been about the same as their average relationship during the 1920's. These types of Indian and Brazilian cottons, especially Brazilian, are closely competitive with American in foreign markets. During the past 2 years they have been consumed in much larger quantities than in earlier years and they have replaced considerable quantities of American cotton in foreign mill consumption. Their prices expressed as a ratio to the price of American, however, have been about the same as in years when their utilization was considerably smaller. This indicates that to the extent that there is an increased production of foreign cotton similar in grade and staple to American, and to the extent that spinners alter machinery and technique so that foreign cottons can be more readily substituted for American, consistently larger quantities of foreign cottons can be used to replace American without the prices of foreign cottons being low compared with the price of American in world markets.

UNITED STATES EXPORTS IN 1936-37 UNUSUALLY LOW - EXPORTS FROM INDIA, EGYPT, AND BRAZIL REACH NEW HIGHS

Domestic exports of cotton from the United States to all countries totaled 5,440,000 bales in the 12 months ended July compared with 5,972,600 bales in 1935-36, a decline of 9 percent. With the exception of 1934-35 this was the smallest volume of exports since 1922-23. In the 10 years ended 1932-33, average exports amounted to 7,880,200 bales. Most of the decline as compared with 1935-36 resulted from decreased shipments to the United Kingdom, Germany, and Spain. Exports to the United Kingdom were 1,144,400 bales compared with 1,409,500 a year earlier. Germany took 649,700 bales compared with 765,500 in 1935-36. Less than 300 bales of American cotton were exported from the United States to Spain this past season, whereas more than 200,000 bales were sent in 1935-36. Smaller quantities than in the preceding season were shipped to China, France, Belgium, and miscellaneous European countries. Exports were larger to Japan, Italy, and Canada.

In contrast to the small exports of cotton from the United States, the movement of cotton from the principal foreign exporting countries has been unusually large. Exports from India in June were 316,000 bales or 23 percent more than in June 1936, and 33 percent more than the average for the 10 years ended 1932-33. Exports in the 11 months ended June totaled 3,362,800 bales, the largest volume of exports on record. Most of the increase in Indian exports of cotton in the first 11 months of this last season over the corresponding period in 1935-36 was accounted for by larger shipments to Japan.

Exports of cotton from Egypt in the season ended July 31 were 1,826,600 bales, an increase of 8 percent over 1935-36, 25 percent more than the average for the 10 years ended 1932-33, and were the largest exports for any season on record. The largest absolute and percentage increase in exports to any one country occurred in the case of Japan to which exports of 204,800 bales in 1936-37 were almost twice as large as shipments in 1935-36. However, shipments to nearly all important markets for Egyptian cotton, with the exception of the United Kingdom, were considerably larger than the 10-year average.

Exports from Brazil were heavy in May, the most recent month for which export data are available. Shipments for all countries totaled 79,200 bales compared with 52,500 in May 1936 and 35,900 bales in May 1935. In the 10 months ended May, exports amounted to 741,800 bales compared with 471,700 in 1935-36, 603,500 in 1934-35, and 188,100 bales in 1933-34, and were the largest for the period on record. Germany, Great Britain, Italy, and Japan imported considerably larger amounts of Brazilian cotton in the first 10 months of 1936-37 than in the corresponding period of 1935-36.

WORLD CARRY-OVER OF AMERICAN COTTON SMALLER - INDICATED SUPPLY FOR 1937-38 SEASON NEARLY 2,250,000 BALES LARGER THAN THE 1936-37 SUPPLY

The world carry-over of American cotton on July 31 is preliminarily estimated at 6 million bales, compared with 6,955,000 on the corresponding date a year earlier and 9,009,000 bales on July 31, 1935. This year's carry-over of American is practically the same as the average of 6,022,000 bales in the period 1923-24 to 1932-33.

Carry-over of American cotton in the United States on July 31 amounted to approximately 4,400,000 bales compared with 5,336,000 on July 31 of last year, 7,137,500 on July 31, 1935, and the 10-year average of 3,687,000 bales. Included in the carry-over in the United States at the end of the 1936-37 season were about 1,700,000 bales of Government-financed cotton, making the supply of cotton in trade channels about 2,700,000 bales. On July 31, 1936, stocks of American cotton in the United States amounted to 5,336,000 bales of which about 3,200,000 were in the Government-financed loan stock; the remaining 2,100,000 bales were in trade channels. Average carry-over for the 10 years ended 1932-33 includes some spot holdings of the Farm Board in 1931 and 1932. In the 5 years ended 1929-30 stocks of American cotton in the United States averaged 2,628,000 bales or about the same as carry-over in trade channels at the end of the past season. In the 5 years ended 1929-30, however, domestic consumption plus exports of American cotton averaged about 15,000,000 bales, or about 1,750,000 more than consumption plus exports in the 1936-37 season.

The indicated new crop of 15,593,000 bales as reported by the Crop Reporting Board, as of August 1, plus the world carry-over of approximately 6 million bales, gives an indicated supply of American cotton for the 1937-38 season of 21,600,000 bales, an increase of 2,250,000 or 12 percent over actual supply in 1936-37. If the crop turns out to be as large as indicated, the world supply of American will be the largest since 1933-34, more than one million bales larger than the 1923-24 to 1932-33 average, but still considerably smaller than the huge supplies in 1931-32 and 1932-33 of 25,965,000 and 25,963,000 bales, respectively.

The increase in the supply of American cotton this season compared with last probably will be accompanied by a still larger increase in the world supply of all cotton, since carry-over of foreign cotton into this season is believed to be larger than a year ago and indications point to a 1937-38 crop in foreign countries as large as or larger than in 1936-37.

COTTON CONSUMPTION BY DOMESTIC MILLS DECLINING, BUT 1936-37 TOTAL A RECORD HIGH

Mills in the United States consumed 583,000 bales of all cotton during the month of July, or 4 percent less than the 607,000 bales utilized in July 1936. With the exception of July last year and July 1933, however, consumption in July this year was higher than for any other corresponding month.

In the 12 months ended July, domestic mill consumption amounted to 7,944,800 bales, which was 25 percent larger than the 6,351,000 bales used in 1935-36, 29 percent more than the 6,182,000 bales consumed on the average from 1923-24 to 1932-33, and was the largest consumption in history. Most of this

record breaking consumption was accounted for by American cotton, utilization of which amounted to 7,765,000 bales compared with 6,219,000 in 1935-36, and the 10-year average of 5,927,000 bales.

Mill activity in the United States in July and the first part of August continued the gradual downward tendency which has been present during the past 2 or 3 months. Mill sales of goods continued to run substantially behind mill production according to trade reports. While many mills still held a considerable volume of unfilled orders, the total quantity of unfilled orders held by the industry as a whole has declined greatly since early in the spring when mill production first began to exceed mill sales. Indications seem to point toward a further slackening in mill activity and cotton consumption in the immediate future. If industrial activity continues to expand, the demand for cotton goods will increase. The extremely large output of cotton textiles during this last season, however, makes it seem unlikely that a higher level of industrial production in 1937-38 than in 1936-37 would mean a proportionately increased demand for cotton. Of course, increased world supplies of all cotton, and especially American cotton, will tend to expand United States consumption, but this would be effected through a lower price for raw cotton.

GENERAL POSITION OF EUROPEAN COTTON TEXTILE INDUSTRY IMPROVED SOMEWHAT IN JULY

United Kingdom.- Sales of goods by British mills were less than mill output during July and the first part of August. No doubt part of the hesitation in placing orders for cloth and yarn was due to the weakness in raw cotton prices. There are several important underlying factors favorable to a continued high level of cotton consumption by the British cotton textile industry. Among them are a still substantial backlog of orders with manufacturers, a high level of domestic purchasing power as a result of buoyant industrial activity and a larger volume of exports of cotton piece goods and yarn during June than in any June for several years past.

Germany.- Retail demand for textile goods in Germany remained strong and the general situation was satisfactory within the limitations imposed by the scarcity of raw materials. Reports indicate that advanced showing of new autumn and winter goods show a definite trend toward an increased use of artificial and substitute fibers. Private sources report that the production of rayon staple fiber is continuing to rise at a very rapid rate, and continued progress is being made in perfecting the technique of its production and use.

France.- Rather unsettled conditions in France during June have been succeeded by a better outlook in July. There has been a small recovery of business in yarn and fabrics and a moderate increase in mill activity.

Italy.- Conditions continued favorable in Italy. During most of July, however, cotton manufacturers and merchants were disturbed by the failure of Italian authorities to permit the regular transfer of currency in payment for arriving shipments of raw cotton. It is believed that these difficulties are only temporary and that they have been due to the piling up of demand for foreign currency as a result of the heavy importation of various products, including wheat, in the first half of 1937. Spinning and weaving mill activity is now about 20 percent above the average for the year 1934. Imports of raw cotton

during the first half of 1937 were practically three times as large as in the first half of 1936, and exports of cotton products were several times those of the first half of last year.

MILL ACTIVITY AND COTTON UTILIZATION AT HIGH LEVELS IN JAPAN AND CHINA DURING JULY - PRESENT CONDITIONS AND PROSPECTS FOR FUTURE OBSCURED BY MILITARY OPERATIONS 1/

Japan.- Production of cotton yarn in Japan during July amounted to 338,371 bales of approximately 400 pounds each. This is the largest output of yarn in any July and is the second largest output in any month. The record high production was 341,460 bales in June. It is impossible to determine now what effect the present difficulties between Japan and China will have upon the cotton textile industry of Japan.

China.- Arrivals of cotton in Shanghai were light during the month of July. Stocks of cotton on hand were moderately large and cotton prices declined. Stocks of yarn remained small and mills held a large volume of unfilled orders. The Japanese mills were reducing operations because buyers failed to take delivery of goods.

The situation in July, however, gives little indication of what conditions are at present. The Chinese cotton manufacturing industry is concentrated to a considerable extent at Shanghai and at Tientsin. Both of these areas are the centers of large scale warfare, and it seems likely that the production of cotton goods along with almost every other form of economic activity has been greatly disrupted. It may be that the present conflict will deal a blow to the Chinese industry from which it will take a considerable time to recover, especially if the war turns out to be a protracted one.

WORLD PRODUCTION THIS YEAR APPARENTLY WILL BE LARGER THAN IN 1936-37

The United States.- The new cotton crop in the United States was indicated by the Crop Reporting Board as of August 1 as 15,593,000 bales of 478 pounds net. A crop of this size would be 25.8 percent larger than last season's production of 12,399,000 bales, 6 percent above the average for the 5 years 1928 to 1932, and the largest production since 1931-32. This indicated production is based on an area of 33,429,000 acres (acreage in clutivation less 10-year average abandonment) and a prospective average yield per acre of 223.3 pounds. If this extremely high yield materializes it will be 25.7 pounds higher than the yield in 1936-37 and the highest yield per acre ever recorded for the United States. The next highest yield was in 1898 when the final yield was 223.1 pounds per acre. The average yield in the 10 years ended 1932-33 was only 169.9 pounds.

The only important producing States in which the indicated yields for 1937 are less than the actual yields of 1936 are: Mississippi, South Carolina, and California, where the indications for this year are 275, 255, and 475 pounds, respectively, compared with 305, 279, and 574 pounds in 1936. The yields in these States were especially large in 1936. Every cotton producing State showed an increase in indicated output over actual output last season. The largest individual increase was one of over 200 percent in Oklahoma where drought resulted in a very small crop in 1936. The next largest increase was 47 percent in Texas. The smallest increase in production indicated for any of the

1/ Prepared partly from cables received from Agricultural Commissioner Dawson at Shanghai under date of August 11, 12, and 22.

principal producing States was an increase of less than 1 percent in Mississippi.

India.- The first estimate of Indian acreage, excluding Burma, places the cotton area on August 1 at 15,225,000 acres compared with 15,259,000 at the same time last year. At the same time last season Burma had 518,000 acres of cotton. If her cotton area should be the same this season as last, total Indian acreage planted up to August 1 in 1937-38 would be about the same as in 1936-37. On the average during the 10 years 1923-24 to 1932-33, 57.6 percent of the total acreage for the season has been planted by August 1.

China.- The weather in China during the month of July is reported to have been somewhat dry for cotton but in general crop prospects are still very good. A recent radiogram from Commissioner Dawson at Shanghai places probable Chinese production in 1937-38 at approximately 4,400,000 bales of 478 pounds. However, it is possible that a continuation of the present dryness or other unfavorable growing conditions or the effect of military operations will result in the crop actually harvested being somewhat smaller than the present forecast.

Brazil.- The first official estimate of the 1937-38 production of cotton in northern Brazil is for a crop of one million bales of 478 pounds each. The estimated crop represents an increase of about 28 percent compared with the first official estimate of the 1936 crop, but an increase of 61 percent over actual production last year in northern Brazil. The present estimate is based upon the assumption of a continuation of favorable climatic conditions and an absence of serious insect damage up to the harvesting period. Last season the first official estimate of 812,000 bales was reduced to 644,000 bales in the final official estimate. The 1935 crop in northern Brazil amounted to 826,000 bales, the 1934 crop to 782,000 bales, and the 1933 crop to 483,000 bales. It is still too early to estimate the total 1937-38 crop in Brazil. Southern Brazil does not plant its crop until September and October and it is not harvested until March and April. The second official estimate places last season's crop in southern Brazil at 1,068,000 bales.

Cotton production in Brazil has increased rapidly in recent years. In the 5 years ended 1932-33, production averaged less than 500,000 bales annually. On the basis of estimates available at the present time the total crop in both northern and southern Brazil in 1936-37 amounted to 1,712,000 bales compared with 1,765,000 in 1935-36, 1,359,000 in 1934-35, and 1,014,000 in 1933-34.

Russia.- Weather during July is reported to have been favorable to the development of the Soviet cotton crop, although cultivation of the cotton fields was lagging somewhat behind plans. Strictly comparable data on cultivation are not available for last year, but it appears that the rate at which cultivation is taking place is about the same as last year.

Egypt.- Trade reports indicate that the 1937-38 crop in Egypt is making good progress upon an area which has been estimated by the Egyptian Government at 2,053,000 acres. As was pointed out in the Cotton Situation for July, this is an increase of 15 percent over the area of 1,781,000 acres in 1936-37. The first official estimate of production will be released by the Egyptian Government the first Monday in October.